

By: Gonzalez Toureilles

H.B. No. 4062

A BILL TO BE ENTITLED

AN ACT

relating to authorizing the operation of video lottery games by licensed horse and greyhound racetrack operators, to providing a defense for the operation of video lottery by Indian tribes, to the authority of the Texas Lottery Commission and the Texas Racing Commission, and to the conduct of gambling in this state; providing penalties.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. Section 466.002, Government Code, is amended by amending Subdivisions (2) through (10) and adding Subdivisions (11) through (35) to read as follows:

(2) "Communication technology" means the methods used and the components employed to facilitate the transmission of information, including transmission and reception systems that transmit information through wire, cable, radio, microwave, light, optics, or computer data networks.

(3) "Director" means a [the] director employed by the executive director under Section 467.031 [of the division].

(4) "Disable," with respect to video lottery terminals, means the process that causes a video lottery terminal to cease functioning on issuance of a shutdown command from the video lottery central system.

(5) "Distribute," with respect to a video lottery terminal, an electronic computer component of a video lottery

1 terminal, the cabinet in which a video lottery terminal is housed,
2 video lottery equipment, or video lottery game software intended
3 for use or play in this state, means the sale, lease, marketing,
4 offer, or other disposition of any of those items.

5 (6) [~~3~~] "Division" means the lottery division
6 established by the commission under Chapter 467.

7 (7) "Electronic storage medium," with respect to video
8 lottery, means the electronic medium on which the operation
9 software for a game playable on a video lottery terminal is stored
10 in the form of erasable programmable read only memory, data storage
11 devices typically considered alterable but through software or
12 hardware means have been rendered unalterable, compact disc-read
13 only memory, flash random access memory, or other technology medium
14 the commission approves for use in or with a video lottery terminal.

15 (8) [~~4~~] "Executive director" means the executive
16 director of the commission.

17 (9) "House-banked game" means a game of chance in
18 which:

19 (A) the house plays as a participant;
20 (B) the house competes against all players,
21 collects from all losers, and pays all winners; and

22 (C) the house has an opportunity to win.

23 (10) "Indian lands" means land described by Section
24 47(f), Article III, Texas Constitution.

25 (11) "Institutional investor" means:

26 (A) a state or federal government pension plan;

27 or

1 (B) any of the following that meets the
2 requirements of a "qualified institutional buyer" as defined in
3 Rule 144A, Securities Act of 1933 (15 U.S.C. Sections 77a-77aa),
4 and the rules and regulations adopted under that rule by the United
5 States Securities and Exchange Commission:

6 (i) a bank as defined by Section 3(a)(6),
7 Securities Exchange Act of 1934 (15 U.S.C. Section 78c), and the
8 rules and regulations adopted under that act by the United States
9 Securities and Exchange Commission;

10 (ii) an insurance company as defined by
11 Section 2(a)(17), Investment Company Act of 1940 (15 U.S.C. Section
12 80a-2);

13 (iii) an investment company registered
14 under Section 8, Investment Company Act of 1940 (15 U.S.C. Section
15 80a-8);

16 (iv) an employee benefit plan or pension
17 fund subject to the Employee Retirement Income Security Act of 1974
18 (29 U.S.C. Section 1001 et seq.), excluding an employee benefit
19 plan or pension fund sponsored by a publicly traded corporation
20 registered with the Securities and Exchange Commission;

21 (v) a group composed entirely of persons
22 specified by this subdivision; or

23 (vi) any other person the commission
24 recognizes as an institutional investor for reasons consistent with
25 the policies expressed in this chapter.

26 (12) [~~45~~] "Lottery" means the state lottery
27 established and operated in accordance with the Texas Constitution

1 under this chapter and includes the operation of a state-controlled
2 video lottery system [~~procedures operated by the state under this~~
3 ~~chapter through which prizes are awarded or distributed by chance~~
4 ~~among persons who have paid, or unconditionally agreed to pay, for a~~
5 ~~chance or other opportunity to receive a prize~~].

6 (13) [~~(6)~~] "Lottery game" means an activity conducted
7 lawfully and in accordance with the Texas Constitution and this
8 chapter that is controlled by this state as part of the lottery and
9 through which prizes are awarded or distributed by chance to
10 persons who have paid or unconditionally agreed to pay, or who
11 otherwise participate in a game, for a chance or other opportunity
12 to receive a prize [~~includes a lottery activity~~].

13 (14) [~~(7)~~] "Lottery operator" means a person selected
14 under Section 466.014(b) to operate a lottery game.

15 (15) "Manufacture," with respect to a video lottery
16 terminal, an electronic computer component of a video lottery
17 terminal, the cabinet in which a video lottery terminal is housed,
18 video lottery equipment, or video lottery game software intended
19 for use or play in this state, means to design, assemble, fabricate,
20 produce, program, or make modifications to any of those items.

21 (16) "Net terminal income" means the total amount of
22 money paid to play video lottery games less the value of all credits
23 redeemed, including any progressive prizes and bonuses, by the
24 players of the video lottery games. Promotional prizes unrelated
25 to video lottery game wagers that are offered by a video lottery
26 retailer or video lottery manager may not be deducted or otherwise
27 considered credits redeemed for money by players for the purpose of

determining net terminal income.

(17) "Pari-mutuel license holder" means a person licensed to conduct wagering on a greyhound race or a horse race under the Texas Racing Act (Article 179e, Vernon's Texas Civil Statutes).

(18) "Person" means, for purposes of video lottery operations, any natural person, corporation, association, trust, partnership, limited partnership, joint venture, subsidiary, or other entity, regardless of its form, structure, or nature.

(19) ~~(8)~~ "Player" means a person who contributes any part of the consideration for a ticket or to play a video lottery game under this chapter.

(20) "Racetrack" means a racetrack as defined by Section 1.03(25), Texas Racing Act (Article 179e, Vernon's Texas Civil Statutes).

(21) ~~(9)~~ "Sales agent" or "sales agency" means a person licensed under this chapter to sell tickets.

(22) "Slot machine" means a mechanical, electrical, or other type of device, contrivance, or machine not connected to the video lottery central system that plays or operates on insertion of a coin, currency, token, or similar object or on payment of any other consideration, and the play or operation of which, through the skill of the operator, by chance, or both, may deliver to the person playing or operating the machine, or entitle the person to receive, cash, premiums, merchandise, tokens, or any other thing of value, whether the payoff is made automatically from the machine or in any other manner. The term does not include any equipment,

machine, technological aid, or other device used or authorized in connection with the play of bingo under Chapter 2001, Occupations Code.

(23) "Substantial interest holder" means any of the following that is not a bona fide lender, bank, or other authorized or licensed lending institution that holds a mortgage or other lien acquired in the ordinary course of business or a vendor of the applicant or license holder that is not otherwise a substantial business holder:

(A) a person who directly, indirectly, or beneficially owns any interest in a privately owned corporation, association, trust, partnership, limited partnership, joint venture, subsidiary, or other entity, regardless of its form, structure, or nature;

(B) a person who directly, indirectly, or beneficially owns 10 percent or more of any publicly owned corporation, association, trust, partnership, limited partnership, joint venture, subsidiary, or other entity, regardless of its form, structure, or nature;

(C) a person associated with an applicant or license holder who the commission determines has the power or authority to:

(i) control the activities of the applicant or license holder; or

(ii) elect or select the executive director, the managers, the partners, or a majority of the board of directors of the applicant or license holder; and

1 (D) any key personnel of a video lottery retailer
2 or video lottery manager, including an executive director, officer,
3 director, manager, member, partner, limited partner, executive,
4 employee, or agent, who the commission determines has the power to
5 exercise significant influence over decisions concerning any part
6 of the applicant's or license holder's business operation.

7 (24) [~~(10)~~] "Ticket" means any tangible evidence
8 issued to provide participation in a lottery game authorized by
9 this chapter other than a video lottery game.

10 (25) "Video lottery central system" means the system
11 of procedures and facilities operated and controlled by the
12 commission that is designed to link together all video lottery
13 terminals operated in this state and allows the commission to
14 continuously monitor the activity of each video lottery terminal
15 and to disable any video lottery terminal in this state.

16 (26) "Video lottery central system provider" means a
17 person that, under a contract with the commission, provides the
18 video lottery central system.

19 (27) "Video lottery equipment" means:

20 (A) a video lottery terminal;

21 (B) equipment, a component, or a contrivance used
22 remotely or directly in connection with a video lottery terminal
23 to:

24 (i) affect the reporting of gross revenue
25 and other accounting information, including a device for weighing
26 and counting money;

27 (ii) provide accounting, player tracking,

bonuses, and in-house or wide-area prizes;

(iii) monitor video lottery terminal operations; and

(iv) provide for the connection of video lottery terminals to the video lottery central system; or

(C) any other communications technology or equipment necessary for the operation of a video lottery terminal.

(28) "Video lottery game" means an electromechanically or electronically simulated game displayed on a video lottery terminal the outcome of which is determined solely by chance based on a computer-generated random selection of winning combinations of symbols or numbers other than typical roulette, dice, or baccarat game themes associated with casino gambling, except that game themes displaying symbols that appear to roll on drums to simulate a classic casino slot machine or themes of other card games and keno may be used.

(29) "Video lottery manager" means a person who is licensed by the commission under this chapter to manage a video lottery terminal establishment.

(30) "Video lottery retailer" means a racetrack or the operator of the premises of a pari-mutuel license holder at which a video lottery terminal establishment is located and that holds a video lottery retailer license under Subchapter K.

(31) "Video lottery system" has the meaning assigned to that term by Section 47a, Article III, Texas Constitution.

(32) "Video lottery terminal" means an interactive electronic device that is capable of displaying video lottery

1 games.

2 (33) "Video lottery terminal establishment" means
3 premises at which the operation of video lottery terminals is
4 authorized by the commission under this chapter in accordance with
5 a license.

6 (34) "Video lottery terminal provider" means a person
7 in the business of manufacturing or distributing video lottery
8 terminals in this state.

9 (35) "Video lottery ticket" means the evidence issued
10 by a video lottery terminal to reflect a credit balance from the
11 play of a video lottery game.

12 SECTION 2. Section 466.003(b), Government Code, is amended
13 to read as follows:

14 (b) Any [A] contract or authorized agreement between the
15 division and a lottery operator, the video lottery central system
16 provider, a video lottery terminal provider, or a manufacturer or
17 distributor of video lottery games under Section 466.014(b) must
18 contain a provision allowing the contract or authorized agreement
19 to be terminated without penalty should the division be abolished
20 unless another state agency is assigned to regulate all video
21 lottery game activity as required by this chapter.

22 SECTION 3. Section 466.004(a), Government Code, is amended
23 to read as follows:

24 (a) A political subdivision of this state may not impose:
25 (1) a tax on the sale of a ticket;
26 (2) a tax on the payment of a prize under this chapter;
27 [~~or~~]

(3) an ad valorem tax on tickets;

(4) a tax, fee, or other assessment on consideration paid to play a video lottery game; or

(5) a tax or fee for attendance or admission to a video lottery establishment or a racetrack at which a video lottery establishment is located unless specifically authorized by statute.

SECTION 4. Section 466.014, Government Code, is amended to read as follows:

Sec. 466.014. POWERS AND DUTIES OF COMMISSION AND EXECUTIVE DIRECTOR; CONTRACT AUTHORITY. (a) The commission and executive director have broad authority and shall exercise strict control and close supervision over ~~[all]~~ lottery games ~~[conducted in this state]~~ to promote and ensure integrity, security, honesty, and fairness in the operation and administration of the lottery.

(b) The executive director may contract with or employ a person to perform a function, activity, or service in connection with the operation of the lottery as prescribed by the executive director. A contract relating to the operation of video lottery must be consistent with Subchapter K. Except as provided by this subsection, a [A] person with whom the executive director contracts to operate a lottery game must be eligible for a sales agent license under Section 466.155. A person with whom the executive director contracts to provide the video lottery central system must be eligible under the same standards as those applicable to the registration or approval by the commission of a video lottery terminal provider in accordance with Subchapter K.

(c) The executive director may award a contract for lottery supplies, equipment, or services, including a contract under Subsection (b), pending the completion of any investigation and licensing, registration, or other affirmative regulatory approval authorized or required by this chapter. A contract awarded under this subsection must include a provision permitting the executive director to terminate the contract without penalty if the investigation reveals that the person to whom the contract is awarded would not be eligible for a sales agent license under Section 466.155 or with regard to video lottery does not satisfy the applicable requirements for licensing, registration, or other affirmative regulatory approval under Subchapter K.

SECTION 5. Section 466.015(b), Government Code, is amended to read as follows:

(b) The commission shall adopt rules to the extent they are not inconsistent with Chapters 551 and 552 governing the:

(1) security for the lottery and the commission, including the development of an internal security plan;

(2) apportionment of the total revenues from the sale of tickets and from all other sources in the amounts provided by this chapter;

(3) enforcement of prohibitions on the sale of tickets to or by an individual younger than 18 years of age or the sale of a video lottery game to or by an individual younger than 21 years of age; ~~and~~

(4) enforcement of prohibitions on a person playing a lottery game by telephone; and

1 (5) enforcement of prohibitions provided by law on the
2 sale of any purchase or play of a video lottery game.

3 SECTION 6. Section 466.017, Government Code, is amended to
4 read as follows:

5 Sec. 466.017. AUDITS. (a) The commission [~~executive~~
6 ~~director~~] shall provide for a certified public accountant to
7 conduct an independent audit of the commission's annual financial
8 statements in accordance with generally accepted auditing
9 standards that requires the accountant to express an opinion on the
10 conformity of the financial statements with generally accepted
11 accounting principles [~~for each fiscal year of all accounts and~~
12 ~~transactions of the lottery~~]. The certified public accountant may
13 not have[, ~~as determined by the executive director,~~] a significant
14 financial interest in a sales agent, lottery vendor, [~~or~~] lottery
15 operator, video lottery manager, video lottery retailer, video
16 lottery terminal provider, or video lottery central system
17 provider. The certified public accountant shall present an audit
18 report to the executive director, the commission, the governor, the
19 comptroller, and the legislature not later than the 30th day after
20 the submission date for the annual financial report required by the
21 General Appropriations Act. [~~The report must contain~~
22 ~~recommendations to enhance the earnings capability of the lottery~~
23 ~~and improve the efficiency of lottery operations.~~] The state
24 auditor may review the results of and working papers related to the
25 audit.

26 (b) The records of a [~~Each~~] lottery operator, sales agent,
27 video lottery manager, video lottery retailer, video lottery

1 terminal provider, or video lottery central system provider
 2 ~~[operator's and sales agent's records]~~ are subject to audit by the
 3 commission and the state auditor. For the purpose of carrying out
 4 this chapter, the executive director or state auditor may examine
 5 all books, records, papers, or other objects that the executive
 6 director or state auditor determines are necessary for conducting a
 7 complete examination under this chapter and may also examine under
 8 oath any officer, director, or employee of a lottery operator, ~~[or]~~
 9 sales agent, video lottery manager, video lottery retailer, video
 10 lottery terminal provider, or video lottery central system
 11 provider. The executive director or state auditor may conduct an
 12 examination at the principal office or any other office of the
 13 person subject to the audit ~~[lottery operator or sales agent]~~ or may
 14 require the person ~~[lottery operator or sales agent]~~ to produce the
 15 records at the office of the commission or state auditor. If a
 16 sales agent, video lottery manager, video lottery retailer, video
 17 lottery terminal provider, or video lottery central system provider
 18 refuses to permit an examination or to answer any question
 19 authorized by this subsection, the executive director may summarily
 20 suspend the license or registration of the sales agent, video
 21 lottery manager, video lottery retailer, or video lottery terminal
 22 provider under Section 466.160 or Subchapter K until the
 23 examination is completed as required. Section 321.013(h) does not
 24 apply to an audit of a lottery operator, ~~[or]~~ sales agent, video
 25 lottery manager, video lottery retailer, video lottery terminal
 26 provider, or video lottery central system provider.

27 SECTION 7. Section 466.018, Government Code, is amended to

1 read as follows:

2 Sec. 466.018. INVESTIGATIONS. The attorney general, the
3 district attorney for Travis County, or the district attorney,
4 criminal district attorney, or county attorney performing the
5 duties of district attorney for the county in which the violation or
6 alleged violation occurred may investigate a violation or alleged
7 violation of this chapter and of the penal laws of this state by the
8 commission or its employees, a sales agent, a lottery vendor, ~~[or]~~ a
9 lottery operator, a video lottery manager, a video lottery
10 retailer, a video lottery terminal provider, or a video lottery
11 central system provider.

12 SECTION 8. Sections 466.020(c), (d), and (e), Government
13 Code, are amended to read as follows:

14 (c) A security officer or investigator employed by the
15 department of security or a peace officer who is working in
16 conjunction with the commission or the Department of Public Safety
17 in the enforcement of this chapter may:

18 (1) [7] without a search warrant, ~~[may]~~ search and
19 seize a lottery vending machine, lottery computer terminal, video
20 lottery terminal, or other lottery or gaming equipment that is
21 located on premises for which a person holds a sales agent, video
22 lottery retailer, or video lottery manager license issued under
23 this chapter; or

24 (2) seize a lottery vending machine, lottery computer
25 terminal, video lottery terminal, or other lottery or gaming
26 equipment that is being used or is in the possession of any person
27 in violation of this chapter.

1 (d) The Department of Public Safety or any other state or
2 local law enforcement agency in this state, at the commission's
3 request and in accordance with an interagency agreement, shall
4 perform a full criminal background investigation of a prospective
5 deputy or investigator of the department of security. The
6 commission shall reimburse the agency [~~Department of Public Safety~~]
7 for the actual costs of an investigation.

8 (e) At least once every two years, the executive director
9 shall employ an independent firm that is experienced in security,
10 including computer security and systems security, to conduct a
11 comprehensive study of all aspects of lottery security, including:

- 12 (1) lottery personnel security;
- 13 (2) sales agent security;
- 14 (3) lottery operator and vendor security;
- 15 (4) security against ticket counterfeiting and
16 alteration and other means of fraudulent winning;
- 17 (5) security of lottery drawings;
- 18 (6) lottery computer, data communications, database,
19 and systems security;
- 20 (7) lottery premises and warehouse security;
- 21 (8) security of distribution of tickets;
- 22 (9) security of validation and payment procedures;
- 23 (10) security involving unclaimed prizes;
- 24 (11) security aspects of each lottery game;
- 25 (12) security against the deliberate placement of
26 winning tickets in lottery games that involve preprinted winning
27 tickets by persons involved in the production, storage,

1 transportation, or distribution of tickets; ~~and~~

2 (13) security of video lottery retailers, video
3 lottery managers, video lottery terminal providers, and video
4 lottery central system providers; and

5 (14) other security aspects of lottery operations,
6 including video lottery game operations.

7 SECTION 9. Section 466.022, Government Code, is amended by
8 amending Subsection (b) and adding Subsections (c), (d), (e), and
9 (f) to read as follows:

10 (b) In addition to commission records excepted from
11 disclosure under Chapter 552, the following information is
12 confidential and is exempt from disclosure:

13 (1) security plans and procedures of the commission
14 designed to ensure the integrity and security of the operation of
15 the lottery;

16 (2) information of a nature that is designed to ensure
17 the integrity and security of the selection of winning tickets or
18 numbers in the lottery, other than information describing the
19 general procedures for selecting winning tickets or numbers; ~~and~~

20 (3) the street address and telephone number of a prize
21 winner, if the prize winner has not consented to the release of the
22 information; and

23 (4) information relating to all system operations of
24 video lottery games, including the operation of the video lottery
25 system, security related to video lottery games, and commission
26 plans and procedures intended to ensure the integrity and security
27 of the operation of video lottery games.

1 (c) Information that is confidential under Subsection
2 (b)(4) includes information and data that:

3 (1) are furnished to the commission under Subchapter K
4 or that may be otherwise obtained by the commission from any source;

5 (2) pertain to an applicant's criminal record,
6 antecedents, and background and are furnished to or obtained by the
7 commission from any source, including information obtained by the
8 commission under Section 411.108(d);

9 (3) are provided to the commission, a commission
10 employee, or an investigator acting on behalf of the commission by a
11 governmental agency or an informer or on the assurance that the
12 information will be held in confidence and treated as confidential;

13 (4) are obtained by the commission from a video
14 lottery manager, video lottery retailer, video lottery terminal
15 provider, or video lottery central system provider; or

16 (5) are prepared or obtained by an agent or employee of
17 the commission relating to a license, certificate of registration,
18 or renewal application, a finding of suitability, or any other
19 affirmative regulatory approval required under Subchapter K.

20 (d) Information that qualifies as confidential under
21 Subsection (b)(4) may be disclosed in whole or in part only as
22 necessary to administer this chapter or under a court order. The
23 commission, subject to appropriate procedures, may disclose the
24 information and data to an authorized agent of a political
25 subdivision of this state, the United States, another state or a
26 political subdivision of another state, a tribal law enforcement
27 agency, or the government of a foreign country.

1 (e) For the annual report required under Section 466.016,
2 the commission may disclose a compilation of statistical
3 information that is otherwise confidential under Subsection (b)(4)
4 if the compilation does not disclose the identity of an applicant,
5 license or registration holder, or video lottery establishment.

6 (f) Notwithstanding any other provision of state law, the
7 information provided under Subsection (d) or (e) may not otherwise
8 be disclosed without specific commission authorization.

9 SECTION 10. Section 466.024, Government Code, is amended to
10 read as follows:

11 Sec. 466.024. PROHIBITED GAMES. (a) The executive
12 director, ~~[or]~~ a lottery operator, a video lottery manager, a video
13 lottery retailer, a video lottery terminal provider, or a video
14 lottery central system provider may not establish or operate a
15 lottery game in which the winner is chosen on the basis of the
16 outcome of a live sports event.

17 (b) ~~The [commission shall adopt rules prohibiting the]~~
18 operation of any game using a video lottery machine or other
19 gambling device that is not connected to the video lottery central
20 system and regulated by this state as required by Section 47a,
21 Article III, Texas Constitution, and this chapter is prohibited
22 [machine].

23 (c) In this section, "sports" ~~[+]~~

24 ~~[(1) "Sports"]~~ event" means a football, basketball,
25 baseball, or similar game, or a horse or dog race on which
26 pari-mutuel wagering is allowed.

27 ~~[(2) "Video lottery machine" or "machine" means any~~

~~1 electronic video game machine that, upon insertion of cash, is
2 available to play or simulate the play of a video game, including
3 video poker, keno, and blackjack, using a video display and
4 microprocessors in which the player may receive free games or
5 credits that can be redeemed for cash, coins, or tokens, or that
6 directly dispenses cash, coins, or tokens.]~~

7 SECTION 11. Section 466.025, Government Code, is amended to
8 read as follows:

9 Sec. 466.025. REPORTS OF TICKETS SOLD, NET TERMINAL INCOME,
10 AND PRIZES AWARDED. For each lottery game, other than a video
11 lottery game, after the last date on which a prize may be claimed
12 under Section 466.408(d), the director shall prepare a report that
13 shows the total number of tickets sold and the number and amounts of
14 prizes awarded in the game. The report must be available for public
15 inspection. For video lottery games, the director shall prepare a
16 weekly report that shows net terminal income for the preceding
17 week.

18 SECTION 12. Section 466.103(a), Government Code, is amended
19 to read as follows:

20 (a) Except as provided by Subsection (b), the executive
21 director may not award a contract for the purchase or lease of
22 facilities, goods, or services related to lottery operations to a
23 person who:

24 (1) would be denied a license as a sales agent under
25 Section 466.155; or

26 (2) with regard to video lottery equipment:

27 (A) is not a registered video lottery terminal

1 provider if registration is required; or

2 (B) would be deemed unsuitable to be a video
3 lottery terminal provider under Subchapter K.

4 SECTION 13. Section 466.151(b), Government Code, is amended
5 to read as follows:

6 (b) The executive director may establish a provisional
7 license or other classes of licenses necessary to regulate and
8 administer the quantity and type of lottery games provided at each
9 licensed location of a sales agent.

10 SECTION 14. Subchapter E, Chapter 466, Government Code, is
11 amended by adding Section 466.206 to read as follows:

12 Sec. 466.206. CRIMINAL HISTORY INVESTIGATION FOR VIDEO
13 LOTTERY. Except as otherwise provided by this section, Sections
14 466.020 and 466.201, and Subchapter K, a criminal history
15 investigation of a video lottery retailer, video lottery manager,
16 video lottery terminal provider, or video lottery central system
17 provider is governed by commission rules adopted under Subchapter
18 K. As applicable, the commission shall consider information
19 obtained through a criminal history investigation conducted under
20 the Texas Racing Act (Article 179e, Vernon's Texas Civil Statutes).

21 SECTION 15. Section 466.252, Government Code, is amended to
22 read as follows:

23 Sec. 466.252. PLAYER [~~PURCHASE OF TICKET~~] AGREEMENT TO
24 ABIDE BY RULES AND INSTRUCTIONS. (a) By purchasing a ticket in a
25 particular lottery game or participating as a player in a lottery
26 game, a player agrees to abide by and be bound by the commission's
27 rules and instructions, including the rules or instructions

1 applicable to the particular lottery game involved. The player
2 also acknowledges that the determination of whether the player is a
3 valid winner is subject to:

4 (1) the commission's rules, instructions, and claims
5 procedures, including those developed for the particular lottery
6 game involved; ~~and~~

7 (2) any validation tests established by the commission
8 for the particular lottery game involved; and

9 (3) the limitations and other provisions prescribed by
10 this chapter.

11 (b) If the lottery uses tickets, an abbreviated form of the
12 rules or a reference to the rules may appear on the tickets.

13 SECTION 16. Section 466.3011, Government Code, is amended
14 to read as follows:

15 Sec. 466.3011. VENUE. Venue is proper in Travis County or
16 any county in which venue is proper under Chapter 13, Code of
17 Criminal Procedure, for:

18 (1) an offense under this chapter;

19 (2) an offense under the Penal Code, if the accused:

20 (A) is a lottery operator, lottery vendor, sales
21 agent, video lottery manager, video lottery retailer, video lottery
22 terminal provider, video lottery central system provider, or
23 employee of the division; and

24 (B) is alleged to have committed the offense
25 while engaged in lottery activities, including video lottery
26 activities; or

27 (3) an offense that involves property consisting of or

1 including lottery tickets under Title 7 or 11, Penal Code.

2 SECTION 17. Subchapter G, Chapter 466, Government Code, is
3 amended by adding Section 466.3031 to read as follows:

4 Sec. 466.3031. UNAUTHORIZED OPERATION, USE, OR POSSESSION
5 OF VIDEO LOTTERY TERMINAL. (a) A person may not operate, use, or
6 possess a video lottery terminal unless the operation, use, or
7 possession is expressly authorized by this chapter or other law.

8 (b) Except for transport to or from a video lottery
9 establishment and as provided by this chapter or other law, a person
10 commits an offense if the person operates, uses, or possesses any
11 video lottery terminal that is not at all times connected to the
12 video lottery central system or that does not generate revenue for
13 this state, except funds retained by the commission to pay
14 administrative costs. An offense under this subsection is a felony
15 of the third degree.

16 (c) Notwithstanding Subsection (b), a video lottery
17 retailer, video lottery manager, or registered or approved video
18 lottery terminal provider may store or possess a video lottery
19 terminal as authorized by the commission, and the commission may
20 possess video lottery terminals for study and evaluation.

21 SECTION 18. Section 466.305(a), Government Code, is amended
22 to read as follows:

23 (a) A sales agent, video lottery manager, or video lottery
24 retailer, or an employee of a sales agent, video lottery manager, or
25 video lottery retailer, commits an offense if the person
26 intentionally or knowingly sells a ticket to another person or
27 allows the person to play or conduct a game on a video lottery

1 terminal by extending credit or lending money to the person to
2 enable the person to purchase the ticket or play the game.

3 SECTION 19. The heading to Section 466.3051, Government
4 Code, is amended to read as follows:

5 Sec. 466.3051. SALE [~~OF TICKET~~] TO OR PURCHASE OF LOTTERY
6 TICKET BY PERSON YOUNGER THAN 18; PLAY OF VIDEO LOTTERY GAME BY
7 PERSON YOUNGER THAN 21 [~~YEARS OF AGE~~].

8 SECTION 20. Section 466.3051, Government Code, is amended
9 by adding Subsections (a-1) and (b-1) and amending Subsections (b)
10 through (f) to read as follows:

11 (a-1) A video lottery manager, a video lottery retailer, or
12 an employee of a video lottery manager or video lottery retailer
13 commits an offense if the person intentionally or knowingly allows
14 a person younger than 21 years of age to play a video lottery game.

15 (b) An individual who is younger than 18 years of age
16 commits an offense if the individual:

17 (1) purchases a lottery ticket; or

18 (2) falsely represents the individual to be 18 years
19 of age or older by displaying evidence of age that is false or
20 fraudulent or misrepresents in any way the individual's age in
21 order to purchase a lottery ticket.

22 (b-1) An individual who is younger than 21 years of age
23 commits an offense if the individual:

24 (1) plays a video lottery game; or

25 (2) falsely represents the individual to be 21 years
26 of age or older by displaying evidence of age that is false or
27 fraudulent or misrepresents in any way the individual's age in

1 order to play a video lottery game.

2 (c) A person 18 years of age or older may purchase a lottery
3 ticket to give as a gift to another person, including an individual
4 younger than 18 years of age.

5 (d) It is a defense to the application of Subsection (b)
6 that the individual younger than 18 years of age is participating in
7 an inspection or investigation on behalf of the commission or other
8 appropriate governmental entity regarding compliance with this
9 section. It is a defense to the application of Subsection (b-1) that
10 the individual younger than 21 years of age is participating in an
11 inspection or investigation on behalf of the commission or other
12 appropriate governmental entity regarding compliance with this
13 section.

14 (e) An offense under Subsection (a) or (a-1) is a Class C
15 misdemeanor.

16 (f) An offense under Subsection (b) or (b-1) is punishable
17 by a fine not to exceed \$250.

18 SECTION 21. Section 466.306, Government Code, is amended to
19 read as follows:

20 Sec. 466.306. FORGERY; ALTERATION OF TICKET. (a) A person
21 commits an offense if the person intentionally or knowingly alters
22 or forges a ticket or video lottery ticket.

23 (b) An offense under this section is a felony of the third
24 degree unless it is shown on the trial of the offense that the prize
25 alleged to be authorized by the ticket or video lottery ticket
26 forged or altered is greater than \$10,000, in which event the
27 offense is a felony of the second degree.

SECTION 22. Section 466.309(a), Government Code, is amended to read as follows:

(a) A person commits an offense if the person intentionally or knowingly tampers with, damages, defaces, or renders inoperable any vending machine, electronic computer terminal, video lottery terminal or other video lottery equipment, or other mechanical device used in a lottery game.

SECTION 23. The heading to Section 466.317, Government Code, is amended to read as follows:

Sec. 466.317. PROHIBITION AGAINST SALE OF CERTAIN LOTTERY TICKETS OR OPERATION OF CERTAIN VIDEO LOTTERY SYSTEMS.

SECTION 24. Section 466.317, Government Code, is amended by adding Subsection (a-1) and amending Subsection (c) to read as follows:

(a-1) A person may not control or operate a video lottery system in this state except as provided by this chapter or other law.

(c) A person commits an offense if the person violates this section. An offense under this section is a felony of the third degree [~~Class A misdemeanor~~].

SECTION 25. Section 466.355(a), Government Code, is amended to read as follows:

(a) The state lottery account is a special account in the general revenue fund. The account consists of all revenue received from the sale of tickets, license and application fees under this chapter, other than Subchapter K, and all money credited to the account from any other fund or source under law. Interest earned by

the state lottery account shall be deposited in the unobligated portion of the general revenue fund.

SECTION 26. Subchapter H, Chapter 466, Government Code, is amended by adding Section 466.360 to read as follows:

Sec. 466.360. VIDEO LOTTERY TERMINAL REVENUE. Revenue generated from the operation of video lottery terminals is governed by Subchapter K and commission rules.

SECTION 27. Section 466.402, Government Code, is amended by adding Subsection (e) to read as follows:

(e) This section does not apply to the payment of prizes for video lottery games governed by Subchapter K.

SECTION 28. Chapter 466, Government Code, is amended by adding Subchapter K to read as follows:

SUBCHAPTER K. VIDEO LOTTERY

Sec. 466.501. LEGISLATIVE FINDINGS AND DECLARATIONS. The legislature finds and declares the following:

(1) The purpose and intent of this subchapter is to carry out the intent of the voters as established by the approval of Section 47a, Article III, Texas Constitution, to expand the revenue-generating ability of the state lottery by authorizing this state to operate a video lottery system consistent with public policy strictly limiting the expansion of gambling in this state.

(2) Except as expressly permitted under other law, the people of this state intend to allow only state-regulated video lottery games to be conducted in this state and only in locations at which pari-mutuel wagering is conducted at racetracks.

(3) The video lottery games operated at racetracks

1 under this subchapter are regulated by this state in a manner that
2 allows this state to continuously monitor all video lottery
3 terminals and to disable any video lottery terminal for the
4 protection of the public and this state.

5 (4) Through the video lottery system this state will
6 monitor the network of video lottery terminals to ensure maximum
7 security unique to state-regulated gambling. Except as may
8 otherwise be provided by state or federal law governing gaming on
9 Indian lands, each operating video lottery terminal in this state
10 will be connected to a video lottery central system.

11 (5) Limited gaming is intended to enhance live horse
12 and greyhound racing, breeding programs, entertainment, and
13 employment in tourism and agricultural industries of Texas and to
14 assist this state's horse and greyhound racing industry, support
15 programs intended to foster and promote horse and greyhound
16 breeding, and improve the living and working conditions of
17 personnel who work and reside in and around the stable and backside
18 areas of racetracks.

19 (6) In authorizing only a state-regulated and
20 state-operated video lottery central system and state-regulated
21 video lottery terminals in limited locations and continuing the
22 general prohibition on gambling in this state as a matter of public
23 policy, this state is protecting the state's legitimate interests
24 by restricting such activity. By limiting the operation of video
25 lottery terminals to those connected to the state-regulated video
26 lottery system on certain land with certain types of games, the
27 legislature seeks to foster this state's legitimate sovereign

1 interest in regulating the growth of gambling activities in this
2 state.

3 (7) This subchapter is game-specific and may not be
4 construed to allow the operation of any other form of gambling
5 unless specifically allowed by this subchapter. This subchapter
6 does not allow the operation of dice games, roulette wheels,
7 house-banked games, including house-banked card games, or games in
8 which winners are determined by the outcome of a live sports contest
9 that are expressly prohibited under other state law.

10 Sec. 466.502. CONSTRUCTION; APPLICABILITY OF OTHER LAWS.

11 (a) This subchapter applies uniformly throughout this state and
12 all political subdivisions of this state.

13 (b) To the extent of any inconsistency between Chapter 2003
14 and this subchapter or a commission rule governing video lottery
15 terminals, this subchapter or the commission rule controls in all
16 matters related to video lottery terminals.

17 (c) Video lottery equipment operated under commission
18 authority and this subchapter is exempt from 15 U.S.C. Section
19 1172.

20 Sec. 466.503. CONDUCT RELATED TO OPERATION OF VIDEO LOTTERY
21 TERMINALS BY INDIAN TRIBES. Notwithstanding any provision of this
22 chapter, conduct authorized in connection with video lottery
23 terminals under this subchapter, including conduct in which a
24 person who holds a license or certificate of registration under
25 this subchapter is permitted to engage under the license or
26 registration, is also authorized for the conduct of video lottery
27 terminals by Indian tribes that is permitted under other law.

1 [Section 466.504 reserved for expansion]

2 Sec. 466.505. AUTHORITY TO OPERATE VIDEO LOTTERY SYSTEM.

3 The commission may implement and operate a video lottery system and
4 regulate the operation of video lottery terminals at racetracks in
5 accordance with this subchapter and the Texas Racing Act (Article
6 179e, Vernon's Texas Civil Statutes). This subchapter supersedes
7 any conflicting or inconsistent provision of the Texas Racing Act
8 (Article 179e, Vernon's Texas Civil Statutes) or other state law.

9 Sec. 466.506. VIDEO LOTTERY GAMES; STATE OWNERSHIP AND
10 PROPRIETARY INTEREST. For purposes of this subchapter, this state
11 may acquire a proprietary interest in video lottery game software
12 through:

13 (1) ownership of the software; or

14 (2) an exclusive product license agreement with a
15 provider in which the provider retains copyrighted ownership of the
16 software but the license granted to this state is nontransferable
17 and authorizes this state to operate the software program, solely
18 for the state's own use, on the video lottery central system and
19 video lottery terminals connected to the video lottery central
20 system.

21 Sec. 466.507. STATE CONTROL OF VIDEO LOTTERY SYSTEM. (a)
22 In accordance with Section 47a, Article III, Texas Constitution,
23 the commission shall control and regulate the video lottery system
24 and the video lottery central system through which this state has
25 the exclusive and unilateral ability to monitor activity of video
26 lottery terminals and remotely disable video lottery terminals for
27 the public safety, health, and welfare or the preservation of the

1 integrity of the lottery and to prevent any financial loss to this
2 state.

3 (b) This section does not affect or restrict the ability of
4 a video lottery manager or video lottery retailer to monitor
5 activity of video lottery terminals and to disable video lottery
6 terminals in accordance with commission rules.

7 (c) The commission may disable a video lottery terminal if a
8 video lottery retailer's or video lottery manager's license is
9 revoked, surrendered, or summarily suspended under this subchapter
10 and to prevent any financial loss to this state.

11 [Sections 466.508-466.509 reserved for expansion]

12 Sec. 466.510. VIDEO LOTTERY CENTRAL SYSTEM. (a) The
13 commission shall establish or cause to be established a video
14 lottery central system to link all video lottery terminals in the
15 video lottery system. The video lottery central system must
16 provide the auditing, security, and other information required by
17 the commission.

18 (b) The commission shall provide to a registered video
19 lottery terminal provider or an applicant applying for registration
20 as a video lottery terminal provider the protocol documentation
21 data necessary to enable the provider's or applicant's video
22 lottery terminals to communicate with the commission's video
23 lottery central system for transmission of auditing program
24 information and for activation and disabling of video lottery
25 terminals.

26 (c) The video lottery central system design may not limit or
27 preclude potential providers from providing state-of-the-art,

1 industry-standard video lottery terminals and associated equipment
2 such as player tracking systems, accounting systems, progressive
3 systems, and bonusing systems, except for providers that fail to
4 meet registration or approval specifications established by the
5 commission.

6 (d) The commission may contract with a video lottery central
7 system provider to establish the video lottery central system.

8 Sec. 466.511. VIDEO LOTTERY TERMINAL PROVIDER:
9 REGISTRATION OR APPROVAL REQUIRED. (a) A person may not
10 manufacture or distribute video lottery equipment for use or play
11 in this state unless the person is registered as a video lottery
12 terminal provider or is otherwise approved by the commission to
13 manufacture or distribute video lottery equipment in this state. A
14 video lottery retailer may also hold a license as a video lottery
15 terminal provider under this section.

16 (b) Unless suspended or revoked, the registration or
17 approval expires on the date specified by the commission, which may
18 not be later than the 10th anniversary of the date of the
19 registration or approval. A person may renew an unexpired
20 registration or approval by paying the required renewal fee and
21 complying with the requirements of this subchapter and commission
22 rule.

23 (c) To be eligible for registration or commission approval
24 as required by this section, an applicant must satisfy all
25 applicable requirements under this subchapter.

26 Sec. 466.512. VIDEO LOTTERY TERMINAL PROVIDER: APPLICATION;
27 CHANGE IN INFORMATION. (a) The commission shall adopt rules

governing the registration or approval of video lottery terminal providers and the information an applicant must provide to the commission. The rules must require the application and any other form or document submitted to the commission by or on behalf of the applicant to determine the applicant's qualification under this section to be sworn to or affirmed before an officer qualified to administer oaths.

(b) The applicant must demonstrate the ability to comply with all manufacturing, quality control, and operational restrictions imposed on authorized video lottery equipment, patented or otherwise restricted video lottery games, or other video lottery equipment that the applicant seeks to manufacture or distribute for use in this state. The registration or approval process must include an on-site review of the applicant's manufacturing equipment and process for each separate type of authorized video lottery equipment to ensure compliance with the requirements of this chapter and commission rules.

(c) Not later than the 30th day after the date of any change in the information submitted on or with the application form, the applicant shall notify the commission of the change, including a change that occurs after the registration or other commission approval has been granted.

(d) The applicant shall comply with all federal and state laws, local ordinances, and rules.

Sec. 466.513. VIDEO LOTTERY TERMINAL PROVIDER: APPLICATION FEE. (a) An applicant seeking registration or approval or renewal of registration or approval as a video lottery terminal provider

1 must pay a nonrefundable application fee in the amount prescribed
2 by commission rule that is sufficient to pay the costs to the
3 commission of administering and licensing video lottery terminals.

4 (b) Application fees paid under this section shall be
5 retained by the commission and may be used only to defray costs
6 incurred in the administration and enforcement of this chapter
7 relating to the operation of video lottery terminals.

8 [Sections 466.514-466.519 reserved for expansion]

9 Sec. 466.520. VIDEO LOTTERY RETAILER OR VIDEO LOTTERY
10 MANAGER LICENSE REQUIRED. (a) Except as specifically provided by
11 other law, a person may not own or operate a video lottery terminal
12 if the person does not satisfy the requirements of this subchapter
13 and is not licensed by the commission to act as a video lottery
14 retailer or video lottery manager.

15 (b) Unless suspended or revoked, a video lottery retailer
16 license expires on the same date the retailer's racetrack or
17 pari-mutuel license issued under the Texas Racing Act (Article
18 179e, Vernon's Texas Civil Statutes) expires.

19 Sec. 466.521. VIDEO LOTTERY RETAILER OR VIDEO LOTTERY
20 MANAGER: APPLICATION AND QUALIFICATION. (a) An applicant for a
21 video lottery retailer or video lottery manager license must:

22 (1) hold a valid racetrack or pari-mutuel license
23 granted by the Texas Racing Commission under the Texas Racing Act
24 (Article 179e, Vernon's Texas Civil Statutes);

25 (2) have a valid and executed contract with a
26 racetrack that satisfies the requirements of Subdivision (1) to act
27 as a video lottery manager for the racetrack subject to licensing

1 under this subchapter;

2 (3) demonstrate to the commission's satisfaction that
3 the applicant seeks to act as a video lottery manager for a
4 federally recognized Indian tribe; or

5 (4) have been determined by the Texas Racing
6 Commission or its designee to be qualified to hold a racetrack or
7 pari-mutuel license under the Texas Racing Act (Article 179e,
8 Vernon's Texas Civil Statutes).

9 (b) Each officer, partner, director, key employee,
10 substantial interest holder, video lottery game operation
11 employee, and owner of video lottery game operations must be
12 eligible and maintain eligibility in accordance with this
13 subchapter to be involved in video lottery games in this state.

14 (c) The commission shall adopt rules to implement this
15 section.

16 (d) The commission shall issue a video lottery retailer or
17 manager license to an applicant who meets the criteria established
18 by the commission rules.

19 Sec. 466.522. VIDEO LOTTERY RETAILER OR VIDEO LOTTERY
20 MANAGER: APPLICATION FEE. (a) An applicant for a video lottery
21 retailer or video lottery manager license shall submit a
22 nonrefundable application processing fee in the amount prescribed
23 by commission rule that is sufficient and reasonable to pay the
24 costs of determining the applicant's eligibility, not to exceed
25 \$5,000.

26 (b) An application may not be processed until the applicant
27 pays the application fee. If the application fee is not received by

1 the 30th day after the date the commission notifies the applicant of
2 the amount of the fee, the application is considered withdrawn and
3 may not be considered by the commission.

4 [Sections 466.523-466.524 reserved for expansion]

5 Sec. 466.525. VIDEO LOTTERY TERMINAL ESTABLISHMENT
6 LICENSE: REQUIREMENTS; LOCATION. (a) An applicant for a video
7 lottery terminal establishment license must ensure that the
8 facility for the establishment will comply with all applicable
9 building codes and rules of the commission. The rules adopted by
10 the commission relating to facilities for video lottery
11 establishments must relate solely to this state's interest in the
12 operation of video lottery terminals.

13 (b) A video lottery terminal establishment shall provide
14 office space for the commission sufficient for at least one
15 commission employee.

16 (c) An applicant for a video lottery terminal establishment
17 license or a license holder shall provide the information required
18 by commission rule relating to the applicant's or license holder's
19 video lottery terminal establishment and update the information at
20 least annually.

21 (d) The commission may not issue a video lottery terminal
22 establishment license to a racetrack if a property line of the
23 licensed premises of the racetrack is located within one-half mile
24 of the property line of a public school. This subsection does not
25 apply to a racetrack that was located within one-half mile of a
26 public school on the first day racing operations commenced at the
27 racetrack.

1 (e) Notwithstanding Section 466.155, the commission may not
2 deny, suspend, or revoke a license under this subchapter based on
3 the fact that a video lottery terminal establishment or a proposed
4 video lottery terminal establishment is a location for which a
5 person holds a wine and beer retailer's permit, mixed beverage
6 permit, mixed beverage late hours permit, private club registration
7 permit, or private club late hours permit, issued under Chapter 25,
8 28, 29, 32, or 33, Alcoholic Beverage Code.

9 (f) A video lottery terminal establishment may be located
10 only at the premises of a licensed racetrack.

11 Sec. 466.526. LICENSE HOLDER AS SALES AGENT. The holder of
12 a video lottery retailer or video lottery manager license may
13 operate as a sales agent for lottery tickets in accordance with this
14 chapter.

15 Sec. 466.527. TERM; RENEWAL ELIGIBILITY. (a) Unless
16 suspended or revoked, a license, certificate of registration,
17 finding of suitability, or other affirmative regulatory approval
18 issued under this subchapter, other than a video lottery retailer
19 license, expires on the date specified in the license, certificate,
20 finding, or approval, which may not be later than the 10th
21 anniversary of the date of issuance.

22 (b) A video lottery retailer license is valid for the same
23 term as a racetrack or pari-mutuel license and until suspended or
24 revoked. The commission may charge an annual fee not to exceed
25 \$50,000 to the holder of a video lottery retailer license.

26 (c) To be eligible for renewal of a license, certificate of
27 registration, finding of suitability, or other affirmative

1 regulatory approval, an applicant must satisfy all applicable
2 requirements under this subchapter.

3 Sec. 466.528. RULES FOR ADDITIONAL QUALIFICATIONS. The
4 commission by rule may establish other license, certificate,
5 finding of suitability, or approval qualifications the commission
6 determines are in the public interest and consistent with the
7 declared policy of this state.

8 Sec. 466.529. APPLICATION AS REQUEST FOR CHARACTER
9 DETERMINATION. An application under this subchapter to receive or
10 renew a license, certificate of registration, finding of
11 suitability, or other affirmative regulatory approval constitutes
12 a request for a determination of the applicant's general character,
13 integrity, and ability to participate or engage in or be associated
14 with the operation of video lottery terminals.

15 Sec. 466.530. IMMUNITY FOR STATEMENT MADE IN PROCEEDING OR
16 INVESTIGATION. Any written or oral statement made in the course of
17 an official commission proceeding or investigative activities
18 related to an application for commission licensing, registration,
19 suitability determination, or other affirmative regulatory
20 approval under this subchapter, by any member or agent or any
21 witness testifying under oath, that is relevant to the purpose of
22 the proceeding is absolutely privileged and does not impose
23 liability for defamation or constitute a ground for recovery in any
24 civil action.

25 Sec. 466.531. SUITABILITY FINDING. To promote the
26 integrity and security of the lottery, the commission in its
27 discretion may require a suitability finding for any person doing

business with or in relation to the operation of video lottery terminals who is not otherwise required to obtain a license, registration, or approval from the commission for the person's video lottery-related operations.

Sec. 466.532. SUMMARY SUSPENSION OF VIDEO LOTTERY RETAILER OR VIDEO LOTTERY MANAGER LICENSE; TERMINAL DISABLED. (a) The commission may summarily suspend the license of a video lottery retailer or video lottery manager without notice or hearing if the commission finds the action is necessary to maintain the integrity, security, honesty, or fairness of the operation or administration of the lottery or to prevent financial loss to this state and:

(1) the license holder fails to deposit money received from video lottery terminal operations as required by this subchapter or commission rule;

(2) an event occurs that would render the license holder ineligible for a license under this subchapter;

(3) the license holder refuses to allow the commission, the commission's agents, or the state auditor, or their designees, to examine the license holder's books, records, papers, or other objects under Section 466.017; or

(4) the executive director learns the license holder failed to disclose information that would, if disclosed, render the video lottery retailer or video lottery manager ineligible for a license under this subchapter.

(b) A summary suspension under this section must comply with the notice and procedure requirements provided by Section 466.160.

(c) The commission may disable a video lottery terminal

operated by a license holder under this subchapter at the time:

(1) a proceeding to summarily suspend the license is initiated;

(2) the commission discovers the license holder failed to deposit money received from video lottery terminal operations as required if the license is being summarily suspended under this section; or

(3) an act or omission occurs that, under commission rules, justifies the termination of video lottery terminal operations to:

(A) protect the integrity of the lottery or the public health, welfare, or safety; or

(B) prevent financial loss to this state.

(d) The commission shall immediately disable a video lottery terminal if necessary to protect the public health, welfare, or safety.

Sec. 466.533. LICENSING, REGISTRATION, SUITABILITY, AND REGULATORY APPROVAL AS REVOCABLE PERSONAL PRIVILEGES. (a) The purchaser or successor of a person who holds a license, registration, finding of suitability, or other affirmative regulatory approval under this subchapter must independently qualify for a license, registration, suitability, or approval required by this subchapter.

(b) The following acts void the license, registration, finding of suitability, or other affirmative regulatory approval of the holder unless approved in advance by the commission:

(1) the transfer, sale, or other disposition of an

1 interest in the holder that results in a change in the identity of a
2 substantial interest holder; or

3 (2) the sale of the assets of the holder, other than
4 assets bought and sold in the ordinary course of business, or any
5 interest in the assets, to any person not already determined to have
6 met the applicable qualifications of this subchapter.

7 [Section 466.534 reserved for expansion]

8 Sec. 466.535. CAPITAL INVESTMENTS AND IMPROVEMENT
9 REQUIREMENTS FOR VIDEO LOTTERY TERMINAL ESTABLISHMENT. A video
10 lottery retailer or video lottery manager shall provide all
11 necessary capital investments and required improvements at a video
12 lottery terminal establishment operated by the retailer or manager.

13 Sec. 466.536. VIDEO LOTTERY TERMINAL. The commission shall
14 provide all video lottery retailers or video lottery managers with
15 a list of registered video lottery terminal providers, video
16 lottery games, and video lottery terminals authorized for operation
17 under this subchapter.

18 Sec. 466.537. VIDEO LOTTERY TERMINAL: DISTRIBUTION AND
19 COMMISSION APPROVAL. (a) A video lottery terminal provider may not
20 distribute a video lottery terminal or other video lottery
21 equipment for placement at a video lottery terminal establishment
22 in this state unless the video lottery terminal has been approved by
23 the commission.

24 (b) Only a video lottery terminal provider registered with
25 or approved by the commission may apply for approval of a video
26 lottery terminal or other video lottery equipment.

27 (c) Not later than the 10th day before the date of shipment

1 to a location in this state, a video lottery terminal provider shall
2 file a report with the commission itemizing all video lottery
3 terminals and other video lottery equipment to be provided to a
4 video lottery retailer or video lottery manager in the shipment.

5 Sec. 466.538. VIDEO LOTTERY TERMINAL: TESTING; REPORT. (a)
6 A video lottery terminal provider shall submit two copies of
7 terminal illustrations, schematics, block diagrams, circuit
8 analysis, technical and operation manuals, and any other
9 information requested by the commission for the purpose of
10 analyzing and testing the video lottery terminal or other video
11 lottery equipment.

12 (b) The commission may require a working model of a video
13 lottery terminal to be provided to the commission unless the video
14 lottery terminal provider provides a certification from an
15 independent, commission-approved testing laboratory that the video
16 lottery terminal is compatible with the state's video lottery
17 system and functions as required by the commission.

18 Sec. 466.539. VIDEO LOTTERY TERMINAL: INSTALLATION;
19 MODIFICATION REQUEST. (a) A video lottery terminal provider is
20 responsible for the assembly and installation of all video lottery
21 terminals and related video lottery equipment.

22 (b) A video lottery terminal provider, video lottery
23 retailer, or video lottery manager may not change the assembly or
24 operational functions of a video lottery terminal authorized by the
25 commission for placement in this state unless a request for
26 modification of an existing video lottery terminal prototype is
27 approved by the commission. The request must contain:

1 (1) a detailed description of the type of change;

2 (2) a detailed description of the reasons for the
3 change; and

4 (3) technical documentation of the change.

5 (c) A video lottery terminal approved by the commission for
6 placement at a video lottery terminal establishment must conform to
7 the specifications of the video lottery terminal prototype tested
8 or approved by the commission.

9 Sec. 466.540. VIDEO LOTTERY TERMINAL REMOVAL. (a) If any
10 video lottery terminal that has not been approved by the commission
11 is distributed by a video lottery terminal provider or operated by a
12 video lottery retailer or video lottery manager or if an approved
13 video lottery terminal malfunctions, the commission shall require
14 the terminal to be removed from use and play.

15 (b) The commission may order that an unapproved terminal be
16 seized and destroyed.

17 (c) The commission may suspend or revoke the license of a
18 video lottery retailer or video lottery manager or the registration
19 of a video lottery terminal provider for the distribution,
20 possession, or operation of an unauthorized video lottery terminal.

21 (d) A video lottery retailer or video lottery manager may
22 retain on the premises of a video lottery establishment a number of
23 machines that the retailer or manager determines is necessary for
24 spare parts or repair purposes or as replacements. The retailer or
25 manager must provide to the commission each month a list of the
26 terminals retained under this subsection.

27 Sec. 466.541. VIDEO LOTTERY TERMINAL SPECIFICATIONS. (a)

1 The commission shall adopt rules for approval of video lottery
2 terminals, including requirements for video lottery game tickets,
3 maximum and minimum payout, and maximum wagers.

4 (b) A commission-approved video lottery terminal must meet
5 the following minimum specifications:

6 (1) the terminal must:

7 (A) operate through a player's insertion of a
8 coin, currency, voucher, or token into the video lottery terminal
9 that causes the video lottery terminal to display credits that
10 entitle the player to select one or more symbols or numbers or cause
11 the video lottery terminal to randomly select symbols or numbers;

12 (B) allow the player to win additional game play
13 credits, coins, or tokens based on game rules that establish the
14 random selection of winning combinations of symbols or numbers and
15 the number of free play credits, coins, or tokens to be awarded for
16 each winning combination; and

17 (C) allow the player at any time to clear all game
18 play credits and receive a video lottery ticket or other
19 representation of credits entitling the player to receive the cash
20 value of those credits;

21 (2) a surge protector must be installed on the
22 electrical power supply line to each video lottery terminal, a
23 battery or equivalent power backup for the electronic meters must
24 be capable of maintaining the accuracy of all accounting records
25 and video lottery terminal status reports for a period of 180 days
26 after power is disconnected from the video lottery terminal, and
27 the power backup device must be in the compartment specified in

1 Subdivision (4);

2 (3) the operation of each video lottery terminal may
3 not be adversely affected by any static discharge or other
4 electromagnetic interference;

5 (4) the main logic boards of all electronic storage
6 mediums must be located in a separate compartment in or from the
7 video lottery terminal that is locked and sealed by the commission;

8 (5) the instructions for play of each game must be
9 displayed on the video lottery terminal face or screen, including a
10 display detailing the credits awarded for the occurrence of each
11 possible winning combination of numbers or symbols;

12 (6) communication equipment and devices must be
13 installed to enable each video lottery terminal to communicate with
14 the video lottery central system through the use of a
15 communications protocol provided by the commission to each
16 registered video lottery terminal provider, which must include
17 information retrieval and programs to activate and disable the
18 terminal; and

19 (7) a video lottery terminal may be operated only if
20 connected to the video lottery central system, and play on the
21 terminal may not be conducted unless the terminal is connected to
22 the video lottery central system.

23 Sec. 466.542. VIDEO LOTTERY TERMINALS: HOURS OF OPERATION;
24 COMMUNICATION; LOCATION. (a) Except as otherwise provided by the
25 commission, the hours of operation for video lottery terminals are
26 subject to restrictions only as provided by commission rules.

27 (b) The commission by rule may prescribe restrictions on the

1 hours of video lottery terminal operations for purposes of
2 accounting for and collecting revenue generated by video lottery
3 terminal operations and performing other operational services on
4 the video lottery system.

5 (c) Communication between the video lottery central system
6 and each video lottery terminal must be continuous and on a
7 real-time basis as prescribed by the commission.

8 (d) Except as provided by commission rule, placement or
9 movement of video lottery terminals in a video lottery terminal
10 establishment must be consistent with a video lottery terminal
11 establishment floor plan filed with the commission.

12 Sec. 466.543. VIDEO LOTTERY TERMINAL: TRANSPORT;
13 DISPOSITION OF OBSOLETE TERMINAL. (a) The transportation and
14 movement of video lottery terminals into or within this state is
15 prohibited, except as permitted by this subchapter and approved by
16 the commission.

17 (b) An obsolete video lottery terminal or a video lottery
18 terminal that is no longer in operation must be promptly reported to
19 the commission.

20 [Section 466.544 reserved for expansion]

21 Sec. 466.545. TRAVEL AND INVESTIGATION COSTS. The
22 commission shall pay the travel and investigative expenses incurred
23 under this subchapter from money appropriated to the commission.

24 Sec. 466.546. CONSENT TO COMMISSION DETERMINATION. (a) An
25 application for a license, certificate of registration, finding of
26 suitability, or other affirmative regulatory approval under this
27 subchapter constitutes a request to the commission for a decision

1 on the applicant's general suitability, character, integrity, and
2 ability to participate or engage in or be associated with the
3 lottery in the manner or position sought.

4 (b) By filing an application with the commission, the
5 applicant specifically consents to the commission's decision at the
6 commission's election when the application, after filing, becomes
7 moot for any reason other than death.

8 Sec. 466.547. ABSOLUTE AUTHORITY OF COMMISSION. To protect
9 the integrity of the lottery or the public health, welfare, or
10 safety, or to prevent financial loss to this state, the commission
11 has full and absolute power and authority, subject to Chapter 2001,
12 Government Code, to:

13 (1) deny any application or limit, condition,
14 restrict, revoke, or suspend any license, registration, finding of
15 suitability, or other affirmative regulatory approval; and

16 (2) fine any person licensed, registered, found
17 suitable, or approved for cause.

18 Sec. 466.548. INSTITUTIONAL INVESTOR. The commission shall
19 adopt rules regarding a finding of suitability for an institutional
20 investor in a person licensed under this subchapter.

21 [Sections 466.549-466.550 reserved for expansion]

22 Sec. 466.551. EFFECT OF DENIAL OF LICENSE OR REGISTRATION.
23 (a) A person whose application for a license or registration has
24 been denied may not have any interest in or association with a video
25 lottery retailer or video lottery manager or any other business
26 conducted in connection with video lottery without prior approval
27 of the commission.

1 (b) Any contract between a person holding a license or
2 registration and a person denied a license or registration must be
3 terminated immediately on receipt of notice from the commission.
4 If the person denied a license or registration has previously been
5 granted a temporary license or registration, the temporary license
6 or registration expires immediately on denial of the permanent
7 license or registration.

8 (c) Except as otherwise authorized by the commission, a
9 person denied a license or registration may not reapply for any
10 license or registration before the second anniversary of the date
11 of the denial.

12 [Section 466.552 reserved for expansion]

13 Sec. 466.553. PRACTICE BY VIDEO LOTTERY RETAILER OR VIDEO
14 LOTTERY MANAGER. A video lottery retailer or video lottery manager
15 must:

16 (1) be aware of patron conditions and prohibit play by
17 visibly intoxicated patrons;

18 (2) comply with state alcoholic beverage control laws;

19 (3) at all times maintain sufficient change and cash
20 in denominations accepted by video lottery terminals;

21 (4) promptly report all video lottery terminal
22 malfunctions and down-time;

23 (5) install, post, and display prominently any
24 material required by the commission;

25 (6) prohibit illegal gambling and any related
26 paraphernalia;

27 (7) except as otherwise provided by this subchapter,

1 at all times prohibit money lending or other extensions of credit at
2 the video lottery terminal establishment;

3 (8) supervise employees and activities to ensure
4 compliance with all commission rules and this subchapter;

5 (9) maintain continuous camera coverage of all aspects
6 of video lottery game operations, including video lottery
7 terminals; and

8 (10) maintain an entry log for each video lottery
9 terminal on the premises of the video lottery terminal
10 establishment and maintain and submit complete records on receipt
11 of each video lottery terminal on the premises as determined by the
12 commission.

13 Sec. 466.554. RACETRACK REQUIREMENTS. (a) A video lottery
14 retailer at all times must hold a valid racetrack or pari-mutuel
15 wagering license issued by the Texas Racing Commission.

16 (b) A video lottery retailer that meets the qualifications
17 of Section 466.521(a)(1) or (4) is considered to meet the
18 requirements of this section.

19 [Section 466.555 reserved for expansion]

20 Sec. 466.556. PRIZE RULES. The commission shall adopt
21 rules governing:

22 (1) the range of amounts a player may be charged to
23 play each video lottery game; and

24 (2) the range of prizes and credits that may be awarded
25 to the player of a video lottery game.

26 Sec. 466.557. VIDEO LOTTERY CENTRAL SYSTEM: COMMUNICATION
27 TECHNOLOGY. The video lottery central system provider shall pay

1 for the installation and operation of commission-approved
2 communication technology to provide communication between each
3 video lottery terminal and the video lottery central system.

4 Sec. 466.558. RESPONSIBILITY FOR VIDEO LOTTERY GAME
5 OPERATIONS. (a) A video lottery retailer or a video lottery
6 manager, if applicable, is responsible for the management of video
7 lottery game operations, including:

8 (1) the validation and payment of prizes,
9 determination of game themes, prizes, bonuses, progressives,
10 number and placement of video lottery terminals, and individual pay
11 out percentage settings; and

12 (2) the management of cashiers, food and beverage
13 workers, floor workers, security personnel, the security system,
14 building completion, janitorial services, landscaping design, and
15 maintenance.

16 (b) Nothing in Subsection (a) limits the authority of the
17 commission, the Department of Public Safety, or another law
18 enforcement agency to administer and enforce this chapter as
19 related to video lottery.

20 (c) In addition to other requirements under this chapter
21 relating to video lottery, a video lottery retailer or a video
22 lottery manager at all times shall:

23 (1) operate only video lottery terminals that are
24 distributed by a registered video lottery terminal provider and
25 provide a secure location for the placement, operation, and play of
26 the video lottery terminals;

27 (2) prevent any person from tampering with or

1 interfering with the operation of a video lottery terminal;

2 (3) ensure that communication technology from the
3 video lottery central system to the video lottery terminals is
4 connected at all times and prevent any person from tampering or
5 interfering with the operation of the connection;

6 (4) ensure that video lottery terminals are in the
7 sight and control of designated employees of the video lottery
8 retailer or video lottery manager and in the sight of video cameras
9 as required under this subchapter;

10 (5) ensure that video lottery terminals are placed and
11 remain placed in the locations in the video lottery terminal
12 establishment that are consistent with the retailer's or manager's
13 floor plan;

14 (6) monitor video lottery terminals to prevent access
15 to or play by persons who are under 21 years of age or who are
16 visibly intoxicated;

17 (7) pay all credits won by a player on presentment of a
18 valid winning video lottery game ticket;

19 (8) install, post, and display prominently at the
20 licensed location redemption information and other informational
21 or promotional materials as required by the commission;

22 (9) maintain general liability insurance coverage for
23 the video lottery terminal establishment and all video lottery
24 terminals in the amounts required by the commission;

25 (10) assume liability for money lost or stolen from
26 any video lottery terminal; and

27 (11) annually submit an audited financial statement to

1 the commission in accordance with generally accepted accounting
2 principles.

3 [Section 466.559 reserved for expansion]

4 Sec. 466.560. TECHNICAL STANDARDS FOR VIDEO LOTTERY
5 EQUIPMENT. The commission by rule shall establish minimum
6 technical standards for video lottery equipment that may be
7 operated in this state.

8 Sec. 466.561. INCIDENT REPORTS. (a) A video lottery
9 retailer or video lottery manager shall record all unusual
10 occurrences related to gaming activity in a video lottery terminal
11 establishment operated by the retailer or manager.

12 (b) A video lottery retailer or video lottery manager shall
13 assign each material incident, without regard to materiality, a
14 sequential number and, at a minimum, provide the following
15 information in a permanent record prepared in accordance with
16 commission rules to ensure the integrity of the record:

17 (1) the number assigned to the incident;
18 (2) the date and time of the incident;
19 (3) the nature of the incident;
20 (4) each person involved in the incident; and
21 (5) the name of the employee or other agent of the
22 video lottery retailer or video lottery manager who investigated
23 the incident.

24 Sec. 466.562. EXCLUSION OF PERSONS. (a) The commission
25 shall compile a list of persons that a video lottery retailer or
26 video lottery manager must bar from a video lottery terminal
27 establishment based on a person's criminal history or association

1 with criminal offenders or because the person poses a threat to the
2 integrity of the lottery.

3 (b) A video lottery retailer or video lottery manager shall
4 employ the retailer's or manager's best efforts to exclude such
5 persons from entry into the establishment.

6 (c) A video lottery retailer or video lottery manager may
7 exclude a person for any reason not related to the person's race,
8 sex, national origin, physical disability, or religion.

9 (d) A person who believes the person may be playing video
10 lottery games on a compulsive basis may request that the person's
11 name be placed on the list compiled by the commission under
12 Subsection (a).

13 (e) All video lottery game employees shall receive training
14 in identifying players with a compulsive playing problem. Signs
15 and other materials shall be readily available to direct compulsive
16 players to agencies that offer appropriate counseling.

17 Sec. 466.563. REPORT ON LITIGATION. (a) A video lottery
18 retailer or video lottery manager shall report to the commission
19 any litigation relating to the retailer's or manager's video
20 lottery terminal establishment, including a criminal proceeding, a
21 proceeding involving an issue related to racing activities that
22 impact video lottery operations, or a matter related to character
23 or reputation relevant to a person's suitability under this
24 subchapter.

25 (b) The report required under Subsection (a) must be filed
26 not later than the fifth day after acquiring knowledge of the
27 litigation.

1 Sec. 466.564. COMMISSION APPROVAL REQUIRED FOR PROCEDURES
2 AND ACCOUNTING CONTROLS. (a) The commission's approval is
3 required for all internal procedures and accounting controls of a
4 video lottery retailer or video lottery manager.

5 (b) The commission by rule shall establish general
6 accounting and auditing requirements and internal control
7 standards for video lottery retailers and video lottery managers.

8 [Section 466.565 reserved for expansion]

9 Sec. 466.566. VIDEO LOTTERY TERMINAL EVENTS. A video
10 lottery retailer or video lottery manager shall keep a record of
11 video lottery terminal events. The commission by rule shall
12 determine what constitutes a video lottery terminal event for
13 purposes of this section.

14 Sec. 466.567. EMPLOYEE REPORTING. (a) On or before the
15 15th day of each month, a video lottery retailer or video lottery
16 manager shall submit to the commission an employee report for the
17 video lottery terminal establishment operated by the retailer or
18 manager. For each employee of the retailer or manager, the report
19 must provide the employee's name, job title, date of birth, and
20 social security number.

21 (b) The employee report is confidential and may not be
22 disclosed except under commission order or in accordance with
23 Section 466.022(d).

24 (c) The commission may conduct criminal history
25 investigations for employees of video lottery retailers and video
26 lottery managers.

27 (d) The commission may prohibit an employee from performing

any act relating to video lottery terminals if the commission finds that an employee has:

(1) committed, attempted, or conspired to commit any act prohibited by this chapter;

(2) concealed or refused to disclose any material fact in any commission investigation;

(3) committed, attempted, or conspired to commit larceny or embezzlement;

(4) been convicted in any jurisdiction of an offense involving or relating to gambling;

(5) accepted employment in a position for which commission approval is required after commission approval was denied for a reason involving personal unsuitability or after failing to apply for a license or approval on commission request;

(6) been prohibited under color of governmental authority from being present on the premises of any gaming establishment or any establishment where pari-mutuel wagering is conducted for any reason relating to improper gambling activity or for any illegal act;

(7) wilfully defied any legislative investigative committee or other officially constituted body acting on behalf of the United States or any state, county, or municipality that sought to investigate alleged or potential crimes relating to gaming, corruption of public officials, or any organized criminal activities; or

(8) been convicted of any felony or any crime involving moral turpitude.

(e) The commission may prohibit an employee from performing any act relating to video lottery terminals based on a revocation or suspension of any gaming or wagering license, certificate of registration, finding of suitability, or other affirmative regulatory approval or for any other reason the commission finds appropriate, including a refusal by a regulatory authority to issue a license, certificate of registration, finding of suitability, or other affirmative regulatory approval for the employee to engage in or be involved with the lottery or with regulated gaming or pari-mutuel wagering in any jurisdiction.

(f) In this section, "employee" includes any person connected directly with or compensated by an applicant or license holder as an agent, personal representative, consultant, or independent contractor for activities directly related to video lottery operations in this state.

Sec. 466.568. REPORT OF VIOLATIONS. A person who holds a license, certificate of registration, finding of suitability, or other affirmative regulatory approval under this subchapter shall immediately report a violation or suspected violation of this chapter or a rule adopted under this chapter by any holder of a license, certificate of registration, finding of suitability, or other affirmative regulatory approval, by an employee of the holder, or by any person on the premises of a video lottery terminal establishment, whether or not associated with the holder.

Sec. 466.569. SECURITY. (a) In addition to the security provisions applicable under Section 466.020, a video lottery retailer or video lottery manager shall comply with the following

1 security procedures:

2 (1) all video lottery terminals must be continuously
3 monitored through the use of a closed-circuit television system
4 that records activity for a continuous 24-hour period and all video
5 tapes or other media used to store video images shall be retained
6 for at least 30 days and made available to the commission on
7 request;

8 (2) access to video lottery terminal areas shall be
9 restricted to persons who are at least 21 years of age;

10 (3) the video lottery retailer or video lottery
11 manager must provide to the commission a security plan for the
12 retailer or manager's video lottery operations that includes a
13 floor plan of the area where video lottery terminals are to be
14 operated showing video lottery terminal locations and security
15 camera mount locations; and

16 (4) each license holder shall employ at least the
17 minimum number of private security personnel the commission
18 determines is necessary to provide for safe and approved operation
19 of the video lottery terminal establishment and the safety and
20 well-being of the players.

21 (b) Private security personnel must be present during all
22 hours of operation at each video lottery terminal establishment.

23 (c) An agent or employee of the commission or the Department
24 of Public Safety or other law enforcement personnel may be present
25 at a video lottery terminal establishment at any time.

26 (d) The commission may adopt rules to impose additional
27 surveillance and security requirements related to video lottery

terminal establishments and the operation of video lottery terminals.

Sec. 466.570. VIDEO LOTTERY TERMINAL ESTABLISHMENT: COMMISSION RIGHT TO ENTER. The commission, the commission's representative, the Texas Racing Commission, or a representative of the Texas Racing Commission, after displaying appropriate identification and credentials, has the free and unrestricted right to enter the premises of a video lottery terminal establishment and to enter any other locations involved in operation or support of video lottery at all times to examine the systems and to inspect and copy the records of a video lottery retailer or video lottery manager pertaining to the operation of video lottery.

[Sections 466.571-466.586 reserved for expansion]

Sec. 466.587. INDEMNIFICATION REQUIREMENTS. The holder of a license, certificate of registration, finding of suitability, or other affirmative regulatory approval shall indemnify and hold harmless this state, the commission, and all officers and employees of this state and the commission from any and all claims which may be asserted against the holder, the commission, this state, and the members, officers, employees, and authorized agents of this state or the commission arising from the holder's participation in the video lottery system authorized under this subchapter.

Sec. 466.588. LIABILITY FOR CREDIT AWARDED OR DENIED; PLAYER DISPUTE. (a) This state and the commission are not liable for any video lottery terminal malfunction or error by a video lottery retailer, video lottery manager, or video lottery terminal provider that causes credit to be wrongfully awarded or denied to

1 players.

2 (b) Any dispute arising between a player and a video lottery
3 retailer or video lottery manager shall be resolved by the
4 commission as follows:

5 (1) if the fair market value of the prize is less than
6 \$1,000, the dispute shall be resolved in accordance with the
7 commission-approved written policies of the video lottery retailer
8 or video lottery manager and without any relief available from the
9 commission or this state; or

10 (2) if the fair market value of the prize is \$1,000 or
11 more, the dispute shall be resolved by the commission in the
12 commission's sole discretion in accordance with commission rules.

13 (c) A court of this state does not have jurisdiction to
14 review the decision of the commission resolving a dispute between a
15 player and a video lottery retailer, video lottery manager, or
16 video lottery terminal provider.

17 Sec. 466.589. STATE VIDEO LOTTERY ACCOUNT. (a) The
18 commission shall deposit funds received under this subchapter to
19 the state video lottery account. The state video lottery account is
20 a special account in the general revenue fund. The account consists
21 of all revenue received by this state from the operation of video
22 lottery terminals.

23 (a-1) Except as provided by Subsection (b), all revenue
24 received by this state from the operation of the video lottery
25 system shall be distributed solely to reimburse the commission
26 until the \$5 million authorized under this subsection is repaid to
27 the state lottery account. From funds previously appropriated to

1 the commission for the state fiscal biennium ending August 31,
2 2011, and notwithstanding Section 466.355(b), the commission is
3 authorized to expend an amount not to exceed \$5 million from the
4 state lottery account during that biennium to establish the video
5 lottery system in accordance with this chapter. From revenue
6 deposited in the state video lottery account during that biennium,
7 the commission is hereby appropriated the amount necessary to
8 reimburse the state lottery account for the total amount of funds
9 expended to establish the video lottery system from the
10 appropriation to the state lottery account, and the commission
11 shall deposit that amount to the state lottery account. This
12 subsection expires January 1, 2013.

13 (b) An amount not to exceed one percent of the net terminal
14 income received by this state under Section 466.590 shall be
15 allocated to the commission to defray expenses incurred in
16 administering this chapter related to video lottery, including
17 expenses incurred to operate the video lottery central system. All
18 money allocated to the commission under this subsection may be
19 retained by the commission to defray expenses of administering this
20 chapter related to video lottery and shall be deposited in the state
21 video lottery account.

22 Sec. 466.590. ALLOCATION OF NET TERMINAL INCOME; TRANSFER
23 OF MONEY. (a) Net terminal income derived from the operation of
24 video lottery games in this state is allocated as follows:

25 (1) a portion of the net terminal income generated in
26 each calendar year shall be remitted to this state by the video
27 lottery retailer or video lottery manager in an amount equal to 35

1 percent of the net terminal income for that year; and

2 (2) the remainder shall be retained by the video
3 lottery retailer or video lottery manager.

4 (b) Ten million dollars of the net terminal income received
5 by this state under Subsection (a) shall annually in equal monthly
6 installments be transferred to the Texas Racing Commission to be
7 expended solely for the treatment of compulsive gamblers and the
8 promotion of responsible gaming.

9 (c) One percent of the net terminal income received by this
10 state under Subsection (a) shall be transferred to the Equine
11 Research Program at the College of Veterinary Medicine at Texas A&M
12 University for use in equine research under Subchapter F, Chapter
13 88, Education Code.

14 (d) Ten million dollars of the net terminal income received
15 by this state under Subsection (a) shall annually in equal monthly
16 installments be transferred to the criminal justice planning fund
17 for use by the criminal justice division of the governor's office to
18 be used to prosecute offenses under Chapter 47, Penal Code.

19 (d-1) Three percent of the net terminal income received by
20 this state under Subsection (a) shall be used to fund the
21 performance horse development fund, administered by the Texas
22 Racing Commission to fund a broad spectrum of the horse industry
23 outside the racing industry and to develop the agriculture industry
24 in this state. Money from the fund is allocated annually as
25 follows:

26 (1) 40 percent of the fund to American Quarter Horse
27 Association sanctioned events;

1 (2) 20 percent to National Cutting Horse Association
2 sanctioned events;

3 (3) 20 percent to American Paint Horse sanctioned
4 events; and

5 (4) 20 percent to the Department of Agriculture to
6 promote the agricultural industry in this state.

7 (d-2) The Texas Racing Commission may adopt rules to
8 administer this section.

9 (e) The commission shall require a video lottery retailer or
10 video lottery manager to establish a separate electronic funds
11 transfer account for depositing money from video lottery terminal
12 operations, making payments to the commission or its designee, and
13 receiving payments from the commission or its designee.

14 (f) A video lottery retailer or video lottery manager may
15 not make payments to the commission in cash. As authorized by the
16 commission, a video lottery retailer or video lottery manager may
17 make payments to the commission by cashier's check.

18 (g) The commission at least weekly shall transfer this
19 state's share of net terminal income of a video lottery retailer or
20 video lottery manager to the commission through the electronic
21 transfer of the money.

22 (h) The commission by rule shall establish the procedures
23 for:

24 (1) depositing money from video lottery terminal
25 operations into electronic funds transfer accounts; and

26 (2) handling money from video lottery terminal
27 operations.

(i) Unless otherwise directed by the commission, a video lottery retailer or a video lottery manager shall maintain in its account this state's share of the net terminal income from the operation of video lottery terminals, to be electronically transferred by the commission on dates established by the commission. On a license holder's failure to maintain this balance, the commission may disable all of a license holder's video lottery terminals until full payment of all amounts due is made. Interest shall accrue on any unpaid balance at a rate consistent with the amount charged under Section 111.060, Tax Code. The interest shall begin to accrue on the date payment is due to the commission.

(j) In the commission's sole discretion, rather than disable a license holder's video lottery terminals under Subsection (i), the commission may elect to impose a fine on a license holder in an amount determined by the commission not to exceed \$250,000 for each violation. If the license holder fails to remedy the violation, including payment of any amounts assessed by or due to this state, within 30 days, the commission may disable the license holder's video lottery terminals or use any other means for collection as provided by the penalty chart established by the commission.

(k) A video lottery retailer or video lottery manager is solely responsible for resolving any income discrepancies between actual money collected and the net terminal income reported by the video lottery central system. Unless an accounting discrepancy is resolved in favor of the video lottery retailer or video lottery

1 manager, the commission may not make any credit adjustments. Any
2 accounting discrepancies which cannot otherwise be resolved shall
3 be resolved in favor of the commission.

4 (1) A video lottery retailer and video lottery manager shall
5 remit payment as directed by the commission if the electronic
6 transfer of money is not operational or the commission notifies the
7 license holder that other remittance is required. The license
8 holder shall report this state's share of net terminal income, and
9 remit the amount generated from the terminals during the reporting
10 period.

11 Sec. 466.591. COMMISSION EXAMINATION OF FINANCIAL RECORDS.
12 The commission may examine all accounts, bank accounts, financial
13 statements, and records in the possession or control of a person
14 licensed under this subchapter or in which the license holder has an
15 interest. The license holder must authorize and direct all third
16 parties in possession or in control of the accounts or records to
17 allow examination of any of those accounts or records by the
18 commission.

19 Sec. 466.592. FINANCIAL INFORMATION REQUIRED. (a) A video
20 lottery retailer or video lottery manager shall furnish to the
21 commission all information and bank authorizations required to
22 facilitate the timely transfer of money to the commission.

23 (b) A video lottery retailer or video lottery manager must
24 provide the commission advance notice of any proposed account
25 changes in information and bank authorizations to assure the
26 uninterrupted electronic transfer of money.

27 (c) The commission is not responsible for any interruption

or delays in the transfer of money. The video lottery retailer or video lottery manager is responsible for any interruption or delay in the transfer of money.

Sec. 466.593. DEDUCTIONS FROM VIDEO LOTTERY PROCEEDS AT RACETRACKS. (a) The pari-mutuel license holder that owns or operates a racetrack at which video lottery games are conducted under this subchapter and the officially recognized horsemen's organization representing the horsemen at the racetrack or the state breed registry representing the greyhound breeders at the racetrack shall enter into a written agreement to allocate a percentage of net terminal income retained by the license holder to be used for purses, accredited Texas Bred Incentive programs, and administrative costs.

(b) Unless otherwise agreed to under Subsection (a) by the pari-mutuel license holder that owns or operates a horse racetrack at which video lottery games are conducted under this subchapter and the officially recognized horsemen's organization representing the horsemen at the racetrack, the license holder shall allocate a percentage determined by the Texas Racing Commission of the net terminal income generated from the operation of video lottery terminals at the racetrack to purses. The percentage must be sufficient to ensure the purses at the racetrack are nationally competitive and may not be less than 6.5 percent or more than 12 percent of the net terminal income generated from the operation of terminals at the racetrack.

(c) Unless otherwise agreed to under Subsection (a) by the pari-mutuel license holder that owns or operates a greyhound

1 racetrack at which video lottery games are conducted under this
2 subchapter and the state breed registry representing the greyhound
3 breeders at the racetrack, the license holder shall allocate a
4 percentage determined by the Texas Racing Commission of the net
5 terminal income generated from the operation of video lottery
6 terminals at the racetrack to purses. The percentage must be
7 sufficient to ensure the purses at the racetrack are nationally
8 competitive and may not be less than 6.5 percent or more than 12
9 percent of the net terminal income generated from the operation of
10 terminals at the racetrack.

11 (d) The Texas Racing Commission shall adopt rules to
12 administer this section. A matter considered by the commission
13 under this section is a contested case under Chapter 2001,
14 Government Code, and requires a public hearing.

15 (e) The state breed registry may allocate up to 50 percent
16 of the amount received under Subsection (c) for Texas breeder
17 awards.

18 [Section 466.594 reserved for expansion]

19 Sec. 466.595. LIABILITY OF VIDEO LOTTERY RETAILER AND VIDEO
20 LOTTERY MANAGER. (a) A video lottery retailer, video lottery
21 manager, or both, are jointly and severally liable to the
22 commission for the state's share of net terminal income.

23 (b) Net terminal income received by the video lottery
24 retailer or video lottery manager is held in trust for the benefit
25 of this state before delivery of the state's share to the commission
26 or electronic transfer to the state treasury, and the video lottery
27 retailer or video lottery manager, or both, are jointly and

1 severally liable to the commission for the full amount of the money
2 held in trust.

3 (c) If the video lottery retailer or video lottery manager
4 is not an individual, each officer, director, or owner of the video
5 lottery retailer or video lottery manager is personally liable to
6 the commission for the full amount of the money held in trust,
7 except that shareholders of a publicly held corporation shall be
8 liable in an amount not to exceed the value of their equity
9 investment.

10 Sec. 466.596. PRIZE PAYMENT AND REDEMPTION. (a) Payment of
11 prizes is the sole and exclusive responsibility of the video
12 lottery retailer or video lottery manager. A prize may not be paid
13 by the commission or this state except as otherwise authorized.

14 (b) Nothing in this subchapter limits the ability of a video
15 lottery retailer or video lottery manager to provide promotional
16 prizes in addition to prize payouts regulated by the commission.

17 (c) A video lottery ticket must be redeemed not later than
18 the 180th day following the date of issuance. If a claim is not made
19 for prize money on or before the 180th day after the date on which
20 the video lottery ticket was issued, the prize money becomes the
21 property of the video lottery terminal establishment.

22 (d) The commission shall enact rules consistent with this
23 section governing the use and redemption of prizes and credits
24 recorded on electronic player account records, such as players'
25 club cards and smart cards.

26 Sec. 466.597. REVOCATION OF LICENSE, REGISTRATION,
27 SUITABILITY FINDING, OR OTHER REGULATORY APPROVAL. (a) The

commission shall revoke or suspend a license, certificate of registration, finding of suitability, or other affirmative regulatory approval issued under this subchapter if the holder at any time fails to meet the eligibility requirements set forth in this subchapter.

(b) Failure to timely remit revenue generated by video lottery terminals to the commission or any tax or other fee owed to this state as demonstrated by report from the applicable taxing authority or to timely file any report or information required under this subchapter as a condition of any license, certificate of registration, finding of suitability, or other affirmative regulatory approval issued under this subchapter may be grounds for suspension or revocation, or both, of a license, registration, suitability, or approval issued under this subchapter.

Sec. 466.598. HEARING FOR REVOCATION OR SUSPENSION. (a) Before the commission revokes or suspends a video lottery terminal provider's registration or video lottery retailer's or video lottery manager's license, or imposes monetary penalties for a violation of this subchapter, the commission shall provide written notification to the license or certificate of registration holder of the revocation, the period of suspension, or the monetary penalty. The notice shall include:

(1) the effective date of the revocation or the period of suspension or the amount of the monetary penalty, as applicable;

(2) each reason for the revocation, suspension, or penalty;

(3) an explanation of the evidence supporting the

1 reasons;

2 (4) an opportunity to present the license or
3 registration holder's position in response on or before the 15th
4 day after the effective date of the revocation; and

5 (5) a statement explaining the person's right to an
6 administrative hearing to determine whether the revocation,
7 suspension, or penalty is warranted.

8 (b) The commission shall adopt rules to implement this
9 section.

10 [Sections 466.599-466.600 reserved for expansion]

11 Sec. 466.601. ABSOLUTE PRIVILEGE OF REQUIRED
12 COMMUNICATIONS AND DOCUMENTS. (a) Any communication, document, or
13 record of a video lottery central system provider, video lottery
14 terminal provider, video lottery retailer, or video lottery
15 manager, an applicant, or a holder of a license, certificate of
16 registration, finding of suitability, or other affirmative
17 regulatory approval that is made or transmitted to the commission
18 or any of its employees to comply with any law, including a rule of
19 the commission, to comply with a subpoena issued by the commission,
20 or to assist the commission or its designee in the performance of
21 their respective duties is absolutely privileged, does not impose
22 liability for defamation, and is not a ground for recovery in any
23 civil action.

24 (b) If a communication, document, or record provided under
25 Subsection (a) contains any information that is privileged under
26 state law, that privilege is not waived or lost because the
27 communication, document, or record is disclosed to the commission

1 or any of the commission's employees.

2 (c) The commission shall maintain all privileged
3 information, communications, documents, and records in a secure
4 place as determined in the commission's sole discretion that is
5 accessible only to members of the commission and authorized
6 commission employees.

7 Sec. 466.602. INTELLECTUAL PROPERTY RIGHTS OF COMMISSION.
8 The legislature finds and declares that the commission has the
9 right to establish ownership of intellectual property rights for
10 all lottery products, including video lottery terminals and related
11 video lottery equipment.

12 SECTION 29. Section 467.001, Government Code, is amended by
13 amending Subdivision (9) and adding Subdivision (12) to read as
14 follows:

15 (9) "Person that has a significant financial interest
16 in the lottery" means:

17 (A) a person or a board member, officer, trustee,
18 or general partner of a person that manufactures, distributes,
19 sells, or produces lottery equipment, video lottery equipment,
20 video lottery games, video lottery central systems, supplies,
21 services, or advertising;

22 (B) an employee of a video lottery terminal
23 provider, video lottery central system provider, or person that
24 manufactures, distributes, sells, or produces lottery equipment,
25 supplies, services, or advertising or video lottery equipment or
26 games and that employee is directly involved in the manufacturing,
27 distribution, selling, or production of lottery equipment,

1 supplies, services, or advertising or video lottery equipment or
2 games;

3 (C) a person or a board member, officer, trustee,
4 or general partner of a person that has made a bid to operate the
5 lottery in the preceding two years or that intends to make a bid to
6 operate the lottery or an employee of the person if the employee is
7 directly involved in making the bid; or

8 (D) a sales agent, video lottery retailer, video
9 lottery manager, video lottery terminal provider, or video lottery
10 central system provider.

11 (12) "Video lottery central system," "video lottery
12 equipment," "video lottery game," "video lottery manager," "video
13 lottery retailer," and "video lottery terminal provider" have the
14 meanings assigned by Section 466.002.

15 SECTION 30. Section 467.031, Government Code, is amended to
16 read as follows:

17 Sec. 467.031. DIVISIONS; DIRECTOR; CONTRACT. The
18 commission shall establish separate divisions to oversee bingo and
19 the state lottery. The commission shall employ a director to
20 oversee video lottery and shall enter into an intra-agency
21 agreement with the Texas Racing Commission for the Texas Racing
22 Commission to be responsible for performing the inspections and
23 regulatory functions specified in the agreement at racetracks on
24 behalf of the Texas Lottery Commission.

25 SECTION 31. Section 467.035(a), Government Code, is amended
26 to read as follows:

27 (a) The commission may not employ or continue to employ a

1 person who owns a financial interest in:

2 (1) a bingo commercial lessor, bingo distributor, or
3 bingo manufacturer; or

4 (2) a lottery sales agency, ~~[or]~~ a lottery operator, a
5 video lottery retailer, a video lottery manager, a video lottery
6 terminal provider, a video lottery central system provider, or a
7 manufacturer of video lottery games.

8 SECTION 32. Section 467.108, Government Code, is amended to
9 read as follows:

10 Sec. 467.108. REPRESENTATION BY FORMER OFFICER OR
11 EMPLOYEE. (a) A former commission member, former executive
12 director, or former director may not:

13 (1) ~~[for compensation]~~ represent a person, either
14 with or without compensation, [that has made or intends to make a
15 bid to operate the lottery] before the commission before the fifth
16 ~~[second]~~ anniversary of the date that the person's service in
17 office or employment with the commission ceases;

18 (2) represent any person or receive compensation for
19 services rendered on behalf of any person regarding a particular
20 matter in which the former officer or employee participated during
21 the period of service or employment with the commission, either
22 through personal involvement or because the matter was within the
23 scope of the officer's or employee's official responsibility; or

24 (3) ~~[for compensation]~~ communicate on behalf of any
25 person, whether compensated or not compensated, directly with a
26 member of the legislative branch to influence legislation on behalf
27 of a person that has any ~~[a significant financial]~~ interest in the

1 lottery, before the fifth [~~second~~] anniversary of the date that the
2 person's service in office or employment with the commission
3 ceases.

4 (b) A person commits an offense if the person violates this
5 section. An offense under this section is a felony of the third
6 degree [~~Class A misdemeanor~~].

7 SECTION 33. Section 411.108, Government Code, is amended by
8 adding Subsection (d) to read as follows:

9 (d) The Texas Lottery Commission may obtain from the
10 department, subject to an interagency agreement entered into under
11 Section 466.020(d) or 466.206, criminal history record information
12 maintained by the department that relates to any natural person,
13 corporation, association, trust, partnership, limited partnership,
14 joint venture, government, subsidiary, or other entity, regardless
15 of its form, structure, or nature that the commission has the
16 authority to investigate under Chapter 466 as related to the
17 commission's operation and oversight of video lottery. Criminal
18 history record information obtained by the commission under this
19 subsection may be released or disclosed only as provided in
20 Sections 466.022(d) and 466.206.

21 SECTION 34. Section 47.01(4), Penal Code, is amended to
22 read as follows:

23 (4) "Gambling device" means any electronic,
24 electromechanical, or mechanical contrivance not excluded under
25 Paragraph (B) that for a consideration affords the player an
26 opportunity to obtain anything of value, the award of which is
27 determined solely or partially by chance, even though accompanied

1 by some skill, whether or not the prize is automatically paid by the
2 contrivance. The term:

3 (A) includes, but is not limited to, gambling
4 device versions of bingo, keno, blackjack, lottery, roulette, video
5 poker, slot machines, or similar electronic, electromechanical, or
6 mechanical games, or facsimiles thereof, that operate by chance or
7 partially so, that as a result of the play or operation of the game
8 award credits or free games, and that record the number of free
9 games or credits so awarded and the cancellation or removal of the
10 free games or credits; and

11 (B) does not include any electronic,
12 electromechanical, or mechanical contrivance designed, made, and
13 adapted solely for bona fide amusement purposes if:

14 (i) the contrivance rewards the player
15 exclusively with noncash merchandise prizes, toys, or novelties, or
16 a representation of value redeemable for those items, that have a
17 wholesale value available from a single play of the game or device
18 of not more than 10 times the amount charged to play the game or
19 device once or \$5, whichever is less;

20 (ii) any merchandise or a representation of
21 value received by a player may be exchanged only at the same
22 business and business location at which the contrivance operated by
23 the player is located and may not be exchanged for a gift
24 certificate or similar conveyance that is redeemable at another
25 business or business location; and

26 (iii) the contrivance or device does not
27 resemble a slot machine or any other casino game.

SECTION 35. Section 47.06(e), Penal Code, is amended to read as follows:

(e) An offense under this section is a felony of the third degree [~~Class A misdemeanor~~].

SECTION 36. Section 47.09, Penal Code, is amended by amending Subsection (a) and adding Subsection (c) to read as follows:

(a) It is a defense to prosecution under this chapter that the conduct:

(1) was authorized under:

(A) Chapter 2001, Occupations Code;

(B) Chapter 2002, Occupations Code; or

(C) the Texas Racing Act (Article 179e, Vernon's Texas Civil Statutes);

(2) consisted entirely of participation in gambling or other gaming activity that:

(A) is or may be permitted under the Indian Gaming Regulatory Act (18 U.S.C. Section 1166 et seq. and 25 U.S.C. Section 2701 et seq.), without regard to whether the gambling or gaming activity is conducted by an Indian tribe to which that Act applies; and

(B) is conducted:

(i) by an Indian tribe or tribal organization that was included on the January 30, 1998, list of recognized Indian tribes by the United States secretary of the interior as required under 25 U.S.C. Section 479a-1; and

(ii) on premises designated by the tribe or

1 tribal organization for that gambling or other gaming activity on
2 land that was held in trust or recognized as tribal land of that
3 tribe or tribal organization by the federal government on January
4 1, 1998;

5 (3) was a necessary incident to activity described by
6 Subdivision (2);

7 (4) consisted entirely of participation in the state
8 lottery, including the video lottery system, authorized by Chapter
9 466, Government Code; or

10 (5) [~~(3)~~] was a necessary incident to the operation of
11 the state lottery, including the video lottery system, and was
12 directly or indirectly authorized by:

13 (A) Chapter 466, Government Code;

14 (B) the lottery division of the Texas Lottery
15 Commission;

16 (C) the Texas Lottery Commission; or

17 (D) the director of the lottery division of the
18 Texas Lottery Commission.

19 (c) Subsection (a)(3) applies to a person manufacturing,
20 distributing, possessing, or operating a gambling device with the
21 authorization of the Texas Lottery Commission under Subchapter K,
22 Chapter 466, Government Code.

23 SECTION 37. Chapter 47, Penal Code, is amended by adding
24 Section 47.095 to read as follows:

25 Sec. 47.095. INTERSTATE OR FOREIGN COMMERCE DEFENSE. It is
26 a defense to prosecution under this chapter that a person sells,
27 leases, transports, possesses, stores, or manufactures a gambling

1 device with the authorization of the Texas Lottery Commission under
2 Subchapter K, Chapter 466, Government Code, or on behalf of an
3 Indian tribe in connection with activity described by Section
4 47.09(a)(2) for transportation in interstate or foreign commerce.

5 SECTION 38. (a) As soon as practicable after the
6 constitutional amendment to authorize video lottery games by
7 licensed racetrack operators proposed by the 81st Legislature,
8 Regular Session, 2009, is approved by the voters and becomes
9 effective, the Texas Lottery Commission and the Texas Racing
10 Commission shall adopt the rules necessary to implement video
11 lottery in accordance with Subchapter K, Chapter 466, Government
12 Code, as added by this Act.

13 (b) Before the proposed constitutional amendment is
14 submitted to the voters, the Texas Lottery Commission may expend
15 money from the commission's appropriation for the 2010-2011 state
16 fiscal biennium for purposes of conducting pre-implementation
17 activities to establish the state video lottery system in
18 accordance with Subchapter K, Chapter 466, Government Code, as
19 added by this Act. Notwithstanding Section 466.355, Government
20 Code, the money authorized to be expended under this section may be
21 withdrawn from the state lottery account and considered a part of
22 the transfer of funds from the state lottery account authorized
23 under Section 466.589, Government Code, as added by this Act, to
24 fund the establishment of the state video lottery system.

25 SECTION 39. The change in law made by this Act applies only
26 to an offense committed on or after the effective date of this Act.
27 An offense committed before the effective date of this Act is

1 covered by the law in effect when the offense was committed, and the
2 former law is continued in effect for that purpose. For purposes of
3 this section, an offense was committed before the effective date of
4 this Act if any element of the offense was committed before that
5 date.

6 SECTION 40. Sections 1 through 37 and 39 of this Act take
7 effect on the date the constitutional amendment authorizing a video
8 lottery system to operate video lottery games at certain horse and
9 greyhound racetracks and providing that federally recognized
10 Indian tribes are not prohibited from conducting gaming on certain
11 Indian lands proposed by the 81st Legislature, Regular Session,
12 2009, becomes effective. Section 38 of this Act and this section
13 take effect immediately if this Act receives a vote of two-thirds of
14 all the members elected to each house, as provided by Section 39,
15 Article III, Texas Constitution. If this Act does not receive the
16 vote necessary for immediate effect, Section 38 of this Act and this
17 section take effect September 1, 2009.